

OPEN MEETING AGENDA ITEM

April 11, 2022

Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Comments on the Application of Tucson Electric Power (TEP) for Authorization for Annual Purchased Power and Fuel Adjustment Clause (PPFAC) Rate Adjustment – Docket No. E-01933A-19-0028

Dear Chairwoman Márquez Peterson and Commissioners:

We, the undersigned organizations and individuals, submit the following comments in response to the above-referenced docket regarding the application by TEP to receive an annual Purchased Power and Fuel Adjustment Clause (PPFAC) rate adjustment.¹

Per the company's filing, TEP is seeking ratepayer-funded recovery of \$108 million in PPFAC-eligible costs. Of that total, \$90 million (83%) is to recover costs the company said it incurred as a result of higher gas and wholesale electricity costs. As with other dockets in which we have filed comments and formally intervened, our goal is to provide important context to TEP's request in relation to the issue of Just and Equitable Transition (JET).

First, we would like to point out the striking similarity in size between the amount TEP is seeking to recover from its customers and the amount proposed for JET assistance to coal-impacted communities by Arizona Public Service (APS) in its most recent rate case.² APS proposed a total payment of \$128.75 million to the Navajo Nation, with \$105 million of that coming through rate recovery. The proposal also included \$15.7 million in JET support to the Hopi Tribe (\$3.7 million) and other nontribal coal-impacted communities (\$12 million).

Funding level aside, there are major distinctions. First, cost recovery for APS's proposal would have been spread out over 10 years and across a much larger customer base, which would have resulted in a rate impact of a few pennies on the dollar on an average monthly bill, at most. TEP's proposal, in contrast, will raise rates by \$9.27 - \$12.48 *per month* on an average residential bill, depending on whether the payback timeframe is 12 months or 18 months.³

¹ See Request for Approval of Tucson Electric Power Company's PPFAC Rate Adjustment Decision No. 77856, Docket No. E-01933A-19-0028. Feb. 1, 2022. <https://docket.images.azcc.gov/E000017718.pdf?i=1649446125212>

² See Rebuttal Testimony of APS Senior Vice President Barbara Lockwood in Docket No. E-01345A-19-0236. Nov. 6, 2020. <https://docket.images.azcc.gov/E000009981.pdf>

³ Per the March 29, 2022 ACC Staff memo in Docket No. E-01933A-19-0028. <https://docket.images.azcc.gov/E000018501.pdf?i=1649446125212>

In light of the exponentially larger impact on bills that the Commission Staff has recommended for approval in the PPFAC docket, it's difficult to fathom how the Commission rationalized slashing JET assistance to less than one-tenth the amount proposed by APS over concerns about rate impacts. It is, after all, Commission policy on purchased power and fuel cost adjusters that allows for rate increases that will be painful for many customers. It is likewise Commission policy that factors in cost *savings* that will accrue through the retirement of non-economic resources such as Navajo Generating Station into rates. In other words, JET assistance should not be viewed, like the purchased power and fuel cost adjustment, as an increase at all, but rather as part of the shared savings from erasing costly assets from the rate base.

With three active dockets in which Just and Equitable Transition features as the main policy issue, we strongly encourage the Commission to consider JET assistance comparatively against the sizable rate increases such as TEP's PPFAC request that are part of your oversight. In that context, it is impossible not to support the idea that coal-impacted communities deserve the type of assistance that has been proposed by APS, and that weighed against other rate issues, JET assistance will have an immaterial, if not beneficial, impact on rates.

The second issue we'd like to address is the over-reliance on volatile resources that are the underpinning of TEP's request for such a significant rate increase. TEP's application is a poster child for the inherent risks of relying on fossil fuel as a generation resource. As Staff notes in its March 29, 2022 memo, methane gas prices skyrocketed by 88% in 2021, and the global gas market effects of the ongoing turmoil in Ukraine are likely to impact pricing even more this year, meaning we will likely see a similar request for a rate increase by TEP next year.

Meanwhile, the cost of renewable energy resources continues to decline,⁴ making it a no-brainer business decision to accelerate the switch from methane gas to wind and solar. With the addition of battery storage, reliability concerns are no longer the issue they once were. Boom-and-bust market pricing for methane gas, which is forcing TEP to stick customers with almost unbearable rate increases, begs for accelerating the transition to lower-cost and far cleaner renewable energy sources as swiftly as possible.

TEP appears to be making strides on this front, which brings us to the main point of the gas vs. clean energy issue. TEP was a co-owner in NGS with APS, Salt River Project (SRP), NV Energy and the U.S. Bureau of Reclamation. In the wake of the plant's retirement at the end of 2019, APS and SRP have now committed to developing a combined 800 megawatts of solar projects

⁴ See Levelized Cost Of Energy, Levelized Cost Of Storage, and Levelized Cost Of Hydrogen. Lazard. Oct. 28, 2021.

<https://www.lazard.com/perspective/levelized-cost-of-energy-levelized-cost-of-storage-and-levelized-cost-of-hydrogen/>

on Tribal land.^{5,6} Development of such projects to replace lost capacity is a critical part of the economic transition being forced on coal-impacted communities.

The commitments made by APS (600 MW) and SRP (200 MW) are important pieces of the JET support for which we have been advocating for years. To date, TEP, which held a 7.5% ownership stake in NGS and also holds a 7% ownership share of Four Corners Power Plant (also situated on the Navajo Nation and slated to retired within the next decade) has committed to build a grand total of *zero megawatts* of new solar capacity on Tribal land.

In 2021, TEP added 449 MW of new wind and solar resources to its system,⁷ and it has now issued an all-source request for proposals for another 550 MW of capacity.⁸ Looking in from the outside, we see lots of talk about supporting Just and Equitable Transition but no actual commitments to doing anything about it. A thousand megawatts of new generating capacity in the past two years and yet not a single mention of dedicating any of that capacity to being built in Tribal communities.

This must change, and we stand ready to participate in a dialog with TEP about what it can be doing to protect its customers from painful rate increases by transitioning to clean energy more swiftly, and in the process carve out projects that it can develop in partnership with the Navajo and Hopi as part of JET commitments similar to what APS has already promised.

Thank you for your consideration of these comments.

Respectfully submitted,

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⁵ See “Salt River Project Issues RFP to Procure up to 400 MW of Solar and Seeks Competitive Proposals for Projects Sited on the Navajo Nation.” Jan. 15, 2020.

<https://media.srpnet.com/salt-river-project-issues-rfp-to-procure-up-to-400-mw-of-solar-and-seeks-competitive-proposals-for-projects-sited-on-the-navajo-nation/>

⁶ See Lockwood Rebuttal Testimony in Docket. No. No. E-01345A-19-0236

⁷ “TEP to Issue All-Source Request for Proposals for Additional Energy Resources.” TEP press release, April 2022.
<https://www.tep.com/news/tep-to-issue-all-source-request-for-proposals-for-additional-energy-resources/>

⁸ Ibid.